



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Grays Harbor County Fire Protection District No. 5

For the investigation period January 1, 2015 through May 31, 2019

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December 10, 2020

Board of Commissioners
Grays Harbor County Fire Protection District No. 5
Elma, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at Grays Harbor County Fire Protection District No. 5. On April 19, 2019, the District notified the Office of the Washington State Auditor of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former Fire Chief's unallowable activities at the District from October 1, 2016 through March 31, 2019. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Director of Communications Kathleen Cooper at (564) 999-0800. Otherwise, please contact Special Investigation Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy

State Auditor

Olympia, WA

cc: Adam Fulbright, Chief

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FRAUD INVESTIGATION REPORT

Investigation Summary

On April 19, 2019, the District notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). In March 2019, an internal investigation into questionable reimbursements paid to the Fire Chief led to identifying a large amount of vacation buyouts paid to the Fire Chief over multiple years.

The District provided its internal investigation files to us for review, and we also opened an investigation. We determined a payroll misappropriation, totaling \$105,822, occurred at the District between October 2016 and March 2019. Additionally, we identified a \$53.36 purchase of a personal item on the District's credit card and \$682.08 in other questionable disbursements made in March 2019.

The District has filed a report with the Grays Harbor County Sheriff's Office, which is investigating this case. We will refer this report to the Grays Harbor County Prosecuting Attorney's Office.

Background and Investigation Results

The District has an annual budget of about \$2 million, with about \$436,000 in payroll expenses. An elected, three-member Board of Commissioners governs the District. The Board appoints a Fire Chief to oversee its daily operations, which includes handling payroll reporting and leave-balance tracking. The District also employs an Assistant Fire Chief, Administrative Assistant, seven firefighters/paramedics, four part-time firefighters, and three per-diem fire-medics. It also is served by about 40 volunteer firefighters.

In March 2019, the District began an internal investigation into reimbursements paid to the Fire Chief after a District Commissioner reviewed a reimbursement paid to the Fire Chief that did not appear to be an allowable business expense. The District also discovered in its review of payroll disbursements that the Fire Chief had cashed out a large number of vacation hours on multiple occasions and that he was paid overtime when he was not eligible. The District notified its Attorney and placed the Fire Chief on administrative leave on April 17, 2019. The District ended the Fire Chief's employment about a month later.

The Fire Chief was responsible for preparing and submitting the District's payroll to the County for processing. This included his own hours, leave, and other types of compensation, which no one independently reviewed.

We reviewed payroll disbursements between January 2015 and May 2019 and found inaccurate calculations in the Fire Chief's vacation balance. We re-calculated the balance, then compared what the Chief had been paid with what he should have been paid. We found:

- From October 2016 to February 2019, the Fire Chief cashed out 1,719 vacation hours he hadn't earned, totaling \$92,267.
- In December 2016, the Chief used 56 hours of vacation leave when his leave balance was negative, totaling \$2,869.
- In November 2018 and March 2019, the Fire Chief received overtime pay he wasn't eligible for, totaling \$10,686.

To determine if any additional misappropriation occurred, we considered systems to which the Fire Chief had access, including vendor disbursements, credit cards, fuel, and employee travel reimbursements. We found the Fire Chief used the District's credit card for a \$53.36 personal purchase in April 2018. In addition, we considered to be questionable one travel reimbursement paid to the Fire Chief in March 2019, totaling \$682.08. The reimbursement was for use of his personal vehicle during a period when the District truck assigned to him was in the shop for repairs. The mileage claimed by the Chief appeared to the District to be excessive.

On October 12, 2020, we interviewed the former Fire Chief with his attorney present. He said he had cashed out more vacation than was available to him. He also said that not only did he receive overtime pay he was not eligible for, he had not worked extra hours at all. He said he knew he had made mistakes and he wanted to make things right by returning money he did not earn.

Control Weaknesses

Internal controls at the District were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- The Fire Chief handled the entire payroll reporting process, which included recording his own payroll information and submitting payroll to the County without any secondary review of the details.
- The Fire Chief was the only person responsible for monitoring and tracking leave balances and usage, including his own.
- The Fire Chief was allowed to approve and submit for payment his own vacation cashouts without Board approval.

Recommendations

We recommend the District improve monitoring over District payroll disbursements to include reviewing detailed employee disbursement listings monthly to confirm amounts and types of compensation paid to employees are appropriate and valid.

We also recommend the District seek recovery of the misappropriated \$105,822, the \$53.36 personal purchase, questionable expenses of \$682, as appropriate, and related investigation costs of \$19,210 from the former Fire Chief and/or its insurance bonding company. Any compromise or settlement of this claim by the District must be approved in writing by the Attorney General and State Auditor, as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or mattk1@atg.wa.gov. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit and Special Investigations, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

District's Response

On behalf of Grays Harbor Fire District 5 Commissioners, staff and community. We would like to thank you and the staff at the Office of Washington State Auditor, for taking on the task of investigating our concerns of misappropriation of public funds.

After reviewing the Washington State Auditors report of investigation for the period of January 2015 through May 31, 2019. We would like to inform the Office of Washington State Auditor that immediately upon the former Fire Chief from services in 2019, the District Commissioners and our team began implementing new procedures to establish control measures that would prevent employees having the ability to misappropriate funds.

The first change in our procedure began in April 2019 when we added additional hours to a part-time Secretary and trained her in the payroll process. From May 2019 to April 2020 both the Fire Chief and Secretary would process payroll together checking each other's work for accuracy.

In May 2019, all commissioners received an electronic file and hard copy of the following items in their commissioner packets. Payroll spreadsheet showing total wages paid out to each employee for regular, overtime and holiday pay. Monthly vacation/sick time accrual and usage for each employee and total payroll expense for the month.

October 2019 through April 2020 the District purchased and implements Bias Software to establish in house control and accuracy of our accounts payable and payroll program.

In March 2020, the District Secretary was moved to full-time status and provided additional training in payroll and accounts payable process. Now the Fire Chief approves time cards and forwards them to our secretary who enters it into our BIAS payroll system. Once payroll is entered it is submitted back to the Fire Chief for final review and approval. Commissioners continue to receive copies of payroll/expenditure reports each month prior to their meeting.

In addition, the Districts reimbursement process was changed immediately in March of 2019. The Fire Chief may approve employee reimbursements and not his/her own. If the Fire Chief has

requested reimbursement, then it shall be submitted to the board at the following commissioner meeting for approval.

We now have an average of five District members who review the monthly payroll, accounts payable and budgetary expenses each month. We are confident that we have implemented the necessary software and procedural changes to reduce and control the risks identified by the Office of Washington State Auditor as noted in the control weakness section.

Auditor's Remarks

We thank District officials and personnel for their assistance and cooperation during the investigation. We will follow up on the District's internal controls during our next regular audit.

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